

Audit Report



APPLICATION CONTROLS OVER THE ANNUITANT PAY
SUBSYSTEM AT THE DEFENSE FINANCE AND
ACCOUNTING SERVICE DENVER CENTER

Report Number 99-110

March 23, 1999

DISTRIBUTION STATEMENT A

Approved for Public Release
Distribution Unlimited

Office of the Inspector General
Department of Defense

19990826 033

ERIC QUALITY INSPECTED 4

AQ I 99-11-2156

Additional Information and Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932 or visit the Inspector General, DoD, Home Page at: www.dodig.osd.mil.

Suggestions for Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DRAS	Defense Retiree and Annuitant Pay System
OMB	Office of Management and Budget
DVA	Department of Veterans Affairs



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

March 23, 1999

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Application Controls Over the Annuitant Pay Subsystem at
the Defense Finance and Accounting Service Denver Center
(Report No. 99-110)

We are providing this report for information and use. The audit was conducted in support of our financial statement audits required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. This is the second of two reports being issued on the Defense Retiree and Annuitant Pay System. We considered management comments on a draft of this report in preparing the final report.

The Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Kimberley A. Caprio at (703) 604-9139 (DSN 664-9139), (kcaprio@dodig.osd.mil), or Mr. Dennis L. Conway at (703) 604-9158 (DSN 664-9158), (dconway@dodig.osd.mil). See Appendix E for the report distribution. Audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-110
(Project No. 8FG-5010.01)

March 23, 1999

Application Controls Over the Annuitant Pay Subsystem at the Defense Finance and Accounting Service Denver Center

Executive Summary

Introduction. The audit was conducted to support our audits required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. This is the second of two reports resulting from our audit of the Defense Retiree and Annuitant Pay System. This report addresses our review of the application controls over the Defense Finance and Accounting Service (DFAS) Denver Center's Annuitant Pay Subsystem, one of two subsystems in the Defense Retiree and Annuitant Pay System. A separate report addresses our review of application controls over the DFAS Retiree and Casualty Pay Subsystem. DFAS requested that we issue separate reports on these subsystems.

The Annuitant Pay Subsystem accounted for over 257,000 annuitants and disbursed an average of \$141.4 million per month from the DoD Military Retirement Trust Fund in FY 1998. Because of the high volume and dollar value of transactions processed, effective controls over the Annuitant Pay Subsystem are essential to ensure authorized, accurate, complete, and reliable annuitant pay data for the Military Retirement Trust Fund.

Objectives. The overall objective was to evaluate general and application controls over the Defense Retiree and Annuitant Pay System to ensure authorized, accurate, complete, and reliable data. This report addresses our review of selected application controls over the Annuitant Pay Subsystem. In a previous report, we discussed selected application controls over the Retiree and Casualty Pay subsystem. (Application controls are the policies and procedures that, when implemented, provide assurance that transactions are valid, properly authorized, and completely and accurately processed.) We also reviewed the management control program as it related to the Annuitant Pay Subsystem.

Results. The DFAS Denver Center had not fully implemented or maintained controls over the accuracy of information in the Annuitant Pay Subsystem. Controls could be improved by documenting reviews and taking more timely corrective actions on reports containing rejected or potentially erroneous transactions. Although our review did not detect unauthorized or fraudulent activity, implementation of these controls will increase managers' confidence that annuity payments are accurate.

DFAS had implemented controls to ensure that transactions were authorized, complete, and reliable before making payments to annuitants. However, additional management controls recommended in this report will better assure DFAS that erroneous or rejected

data can be detected timely to prevent or correct misstatements in the financial statements of the Military Retirement Trust Fund. See Appendix A for details on the management control program and the Finding for a discussion of the audit results.

Summary of Recommendations. We recommend that the Director, DFAS Denver Center, enforce procedures for making timely reviews on reports of rejected and erroneous data and include supervisors in the review process.

Management Comments. The Director of Finance, DFAS, concurred, and the Director, DFAS Denver Center, implemented additional requirements to ensure that more timely reviews are performed on reports of rejected and erroneous data and supervisory reviews are documented. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objectives	1
Finding	
Controls Over the Annuitant Pay Subsystem	2
Appendixes	
A. Audit Process	
Scope and Methodology	7
Management Control Program	8
B. Summary of Prior Coverage	10
C. Vulnerability Analysis and Assessment Program	11
D. Major Categories of Application Controls	12
E. Report Distribution	13
Management Comments	
Defense Finance and Accounting Service Comments	15

Background

This is the second of two reports resulting from our audit of the Defense Retiree and Annuitant Pay System. The audit was conducted to support our audits required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. A separate report addresses our review of application controls over the Defense Finance and Accounting Service (DFAS) Retiree and Casualty Pay Subsystem. DFAS requested that we issue separate reports on these subsystems.

On August 8, 1991, the DoD Corporate Information Management Financial Management Steering Committee approved the DFAS proposal to standardize and consolidate DoD retiree and annuitant pay systems.

The DFAS Cleveland Center's Retired Pay System and the DFAS Denver Center's Annuitant Pay System were integrated as the Defense Retiree and Annuitant Pay System (DRAS). The DFAS Cleveland Center's Retired Pay System was renamed the Retiree and Casualty Pay Subsystem, and the DFAS Denver Center's Annuitant Pay System was renamed the Annuitant Pay Subsystem.

Retiree and annuitant pay transactions are processed on computers managed by the Defense Information Systems Agency (DISA). The DISA Defense Megacenters, Chambersburg, Pennsylvania, processes transactions for the DFAS Cleveland Center's Retiree and Casualty Pay Subsystem. The DISA Defense Megacenters, Denver, Colorado, processes transactions for the DFAS Denver Center's Annuitant Pay Subsystem.

This report discusses our review of selected application controls over the DFAS Denver Center's Annuitant Pay Subsystem. Application controls are the policies and procedures that, when implemented, provide assurance that transactions are valid, properly authorized, and completely and accurately processed. The Annuitant Pay Subsystem was used to account for over 257,000 annuitants and to disburse a monthly average of \$141.4 million from the DoD Military Retirement Trust Fund in FY 1998.

Objectives

The overall objective was to evaluate general and application controls over the DRAS to ensure authorized, accurate, complete, and reliable data. This report addresses our review of selected application controls over the Annuitant Pay Subsystem. We also reviewed the management control program for the Annuitant Pay Subsystem.

See Appendix A for discussion of the audit scope and methodology, and Appendix B for a summary of prior coverage related to the audit objectives.

Controls Over the Annuitant Pay Subsystem

The DFAS Denver Center did not fully implement or maintain controls over the accuracy of information in the Annuitant Pay Subsystem. Personnel at the DFAS Denver Center either did not always make timely reviews or did not document their reviews on reports containing rejection and potentially erroneous transactions, which affected their ability to ensure that the annuitant accounts were accurate. This occurred because managers at the DFAS Denver Center did not consistently enforce timely reviews. Without proper controls over vital reports produced by the Annuitant Pay Subsystem, there is increased risk that erroneous or fraudulent transactions will not be detected timely to prevent or correct misstatements in the annuitant pay records or the financial statements of the Military Retirement Trust Fund.

Guidance for Internal Control Systems

Office of Management and Budget (OMB) Circular No. A-127, "Financial Management Systems," June 23, 1993, states that financial management systems shall include a system of internal controls to ensure that reliable data are obtained, maintained, and disclosed in reports.

OMB Circular No. A-127 also states that agencies shall apply appropriate internal controls to all system inputs, processing, and outputs, in accordance with OMB Circular No. A-123, "Management Accountability and Control," June 21, 1995. OMB Circular No. A-123 requires that management controls be established to ensure that revenues and expenditures are properly recorded and accounted for, and that reliable and timely information is collected and properly maintained.

To implement adequate management controls, DoD should ensure that minimum controls exist within an application system. (An application system is a group of computer programs that process data for a function such as annuity payroll.) Application controls are the policies and procedures that, when implemented, provide assurance that transactions are valid, properly authorized, and completely and accurately processed. The four major categories of application controls are:

- authorization controls,
- completeness controls,
- accuracy controls, and
- controls over the integrity of processing and data files.

See Appendix D for a definition of the major categories of application controls.

Controls Over the Accuracy of Annuitant Information

DFAS had implemented controls to ensure that transactions were authorized, complete, and reliable before making payments to annuitants. However, the DFAS Denver Center did not fully implement or maintain controls over the accuracy of annuitant information in the Annuitant Pay Subsystem. Personnel at the DFAS Denver Center either did not always make timely reviews or did not document their reviews on reports containing rejection and potentially erroneous transactions, which affected the ability to determine whether the annuitants' pay accounts were accurate. The DFAS Denver Center produces a total of 295 daily, monthly, quarterly, and annual management reports, including rejection and error reports.

We judgmentally selected five reports that could have the most significant impact on the reliability of the financial statements and the Annuitant Pay Subsystem if information was inaccurate or incomplete. These reports were important controls for reducing the risk of unauthorized or fraudulent activity because they identified rejections, errors, and duplicate data for annuitant accounts; account modifications without audit trails; and abnormally large payments or payments made on other than the normal paydays. Supervisors at the DFAS Denver Center did not:

- follow management policy during reviews of critical reports, or
- make timely reviews on reports containing rejections and potentially erroneous annuitant data.

Management Policy for Reviewing Reports. Managers at the DFAS Denver Center established policies for reviewing reports containing rejected and potentially erroneous transactions, and implemented a quality examination program to assess and improve the quality of work in the Annuitant Pay Directorate. However, reports containing rejection and potentially erroneous annuitant data were not always reviewed according to those policies.

- DFAS Denver Center management established a policy for following up on transactions not reviewed promptly. The 100 Percent Review Tasks Not Reviewed Report was developed to implement this policy. Unreviewed transactions were listed once in a weekly report and once in a monthly report. Whether the transactions were reviewed or not, subsequent reports did not include those transactions.

We identified approximately 66,000 transactions occurring between November 1996 and December 1997 that were not reviewed promptly. As shown in the following chart, these transactions could have a significant impact on the accuracy of annuitant payments.

Transactions Not Reviewed

Impact of Transactions on Annuitant Payments	Number of Unreviewed Transactions
Updates annuity amount used in computing monthly payment	2,025
Changes DVA* compensation affecting amount paid to annuitant	1
Changes date of death and could affect amount paid to annuitant	558
Survivor benefit election can affect amount paid to annuitant	3,138
Establishes the annuity	16,711
Modifies retiree information used in calculating annuity payment	1,392
Affects DVA* deduction from annuity pay	6,138
Adjusts other income amounts and affects annuity pay	59
Permits adjustments to pay records that bypass system controls	12,848
Allows modification of pay record without an audit trail	3,286
Creates a one-time payment for a new annuitant	593
Changes eligibility of spouse to receive annuity payment	1
Affects entitlement to Social Security and amount of annuity payment	1,868
Provides a control over establishment of new annuity account	17,141
Terminates DVA* deduction and increases amount of annuity payments	26
Total Transactions Not Reviewed	65,785

*Department of Veterans Affairs

Without more timely reviews, DFAS Denver Center managers cannot be assured that annuitant pay accounts are accurate or that unauthorized or fraudulent activity has not occurred.

- The "Veterans Administration Interchange Bump Report" listed the annuity pay accounts eligible for Department of Veterans Affairs (DVA) payments; however, the amounts shown on the DVA records did not match the amounts reflected in the annuitants' accounts on the Annuitant Pay System. DFAS technicians must review the accounts listed on this report to ensure that the accounts are not over- or underpaid. Accounts remain on the report until the technicians take corrective actions.

Using a computer program developed by the Annuity Pay Directorate, we determined that 64 out of 803 accounts (8 percent) required review and were outstanding for more than 1 month. Managers at the DFAS Denver Center could ensure more accurate annuitant pay records by requiring technicians to perform more timely reviews on these accounts.

The Annuity Pay Directorate's Systems Division produced a monthly "Database Clean-up Report" to identify discrepancies in the annuitant accounts. Technicians in the Special Actions Branch were responsible for reviewing the accounts on the report and making corrections. After the technicians completed their review, the Systems Division generated another "Database Clean-up Report" to verify that the conditions causing the discrepancies no longer existed. However, accounts requiring no corrective action (based on the technician's initial review)

also appeared on the second "Database Clean-Up Report." DFAS managers could not verify that the accounts shown on the second report had been reviewed.

Use of Rejection and Error Reports. Although the DFAS Denver Center frequently produced rejection and error reports, management did not require reviews for two of the reports we selected.

- The "Veterans Administration Interchange Social Security Number Reject Report" identified personnel on the DVA records who had Social Security numbers not found on the Annuitant Pay Subsystem. DFAS standard operating procedures required technicians to advise the DVA that these personnel were not recorded on the Annuitant Pay Subsystem and to request additional information. However, management stated that they were disregarding this report because it was relatively common for annuitants to receive a DVA payment and not appear on the Annuitant Pay Subsystem.

During the audit, management issued a memorandum stating that the current high workload and limited number of personnel prohibited effective use of this report; therefore, the report would be discontinued. Also, management stated that compensating controls were in place that provided necessary DVA payment data for ensuring the accuracy of the Annuitant Pay Subsystem. We will review these controls during the audit followup process.

- The "Duplicate Social Security Numbers on the Mail Image Routing and Optical Recording System Report" listed annuitant accounts that were associated with two different retirees. Often, this situation occurred if an annuitant had been married to more than one retiree. Although the annuitant did not receive multiple payments as a result of the death of more than one retiree, this report showed multiple accounts for the annuitant. The annuitant pay technician suspended payments to the annuitant until one of the retirees' accounts was selected for pay. After a selection was made, the annuitant pay technician started pay based on the retiree account selected.

This report was scheduled for monthly review; however, since no prior reports were on file, we could not determine the most recent report reviewed. Management at the DFAS Denver Center acknowledged the need to research accounts containing duplicate Social Security numbers and resumed the review of this report during our audit.

Conclusion

The absence of controls over the accuracy of data in the Annuitant Pay Subsystem increases the possibility for unauthorized or fraudulent activity to occur and not be detected promptly to prevent misstatements in the financial statements of the Military Retirement Trust Fund. The absence of these controls also lowers the confidence that managers can place on the accuracy of annuitant payments.

The DFAS Denver Center has established a quality examination program in the Annuitant Pay Directorate to assess and improve the quality of work performed by technicians. However, transactions were not always reviewed; therefore, a higher potential existed for undetected errors in the annuitant pay accounts.

The Director, DFAS Denver Center, would have greater assurance that application controls have been implemented and maintained if supervisory reviews were documented and required as part of the quality examination program.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service, Denver Center:

1. Enforce procedures for making timely reviews on all reports containing rejections and potentially erroneous transactions generated from the Annuity Pay Subsystem.

DFAS Comments. DFAS concurred, stating that corrective actions were completed on January 30, 1999. The Director, DFAS Denver Center, will use a Management Information System chart to list all monthly reviews and track the date each review was completed.

2. Include supervisors in the quality examination program and require supervisors to document reviews of reports containing rejections and potentially erroneous transactions.

DFAS Comments. DFAS concurred, stating that corrective actions were completed on January 30, 1999. The Director, DFAS Denver Center, will require supervisors to document and review all reports.

Appendix A. Audit Process

Scope and Methodology

The scope of the audit included reviews of application controls for the Annuitant Pay Subsystem of the DRAS. Specifically, we:

- reviewed rejection and error reports,
- evaluated controls over the authorization of transactions,
- evaluated controls for the detection of input errors,
- reviewed written procedures for annuity pay operations,
- evaluated controls for ensuring that information processed by the system was complete and accurate, and
- reviewed procedures for verifying the completeness of account updates.

We also reviewed policies and procedures for establishing and maintaining application controls. This guidance was provided in regulations, directives, circulars, or standards developed by OMB and DoD.

The Annuitant Pay Subsystem processed transactions for over 257,000 annuitants and disbursed a monthly average of \$141.4 million from the DoD Military Retirement Trust Fund in FY 1998.

DoD-wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer DoD and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to the achievement of the following functional area objectives and goals.

- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(Financial Management-5.3)**

-
- **Information Technology Management Functional Area.**
Objective: Provide services that satisfy customer information needs.
Goal: Improve information technology management tools.
(Information Technology Management-2.4)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management and the Information Management and Technology high-risk areas.

Use of Computer-Processed Data. We relied on computer-processed data from the Annuitant Pay Subsystem to determine the adequacy of the application controls. Although we did not perform a formal reliability assessment of the computer-processed data, the documentation we obtained generally agreed with the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

Review Period and Standards. We performed this financial-related audit from December 1997 through October 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. The scope of review of the management control program included reviews on the adequacy of application controls over the Annuitant Pay Subsystem. Specifically, the review evaluated DFAS management controls over authorization, completeness, accuracy, and integrity of processing and data files. Because we did not identify a material weakness, we did not assess management's self-evaluation.

Adequacy of Management Controls. Management controls were adequate in that we identified no material management control weakness. See Appendix C for information on the Vulnerability Analysis and Assessment Program.

Also, DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, states that general ledger and personnel records will be reconciled to payroll records. Currently, the Annuitant Pay Subsystem does not interface with military personnel systems to verify the integrity of the data received. However, the Defense Manpower Data Center is developing an automated method for matching a retiree's Social Security number, recorded on the annuitant pay file, with the Military Department personnel file.

Appendix B. Summary of Prior Coverage

Seven Inspector General, DoD, reports covered issues related to this audit.

Inspector General

Inspector General, DoD, Report No. 97-177, "Internal Controls and Compliance With Laws and Regulations for the DoD Military Retirement Trust Fund Financial Statements for FY 1996," June 25, 1997.

Inspector General, DoD, Report No. 97-052, "Vendor Payments - Operation Mongoose, Fort Belvoir Defense Accounting Office and Rome Operating Location," December 23, 1996.

Inspector General, DoD, Report No. 96-175, "Computer Security Over the Defense Joint Military Pay System," June 25, 1996.

Inspector General, DoD, Report No. 96-124, "Selected General Controls Over the Defense Business Management System," May 21, 1996.

Inspector General, DoD, Report No. 96-053, "Follow-up Audit of Controls Over Operating System and Security Software and Other General Controls for Computer Systems Supporting the Defense Finance and Accounting Service," January 3, 1996.

Inspector General, DoD, Report No. 95-263, "Controls Over Operating System and Security Software and Other General Controls for Computer Systems Supporting the Defense Finance and Accounting Service," June 29, 1995.

Inspector General, DoD, Report No. 94-060, "General Controls for Computer Systems at the Information Processing Centers of the Defense Information Services Organization," March 18, 1994.

Appendix C. Vulnerability Analysis and Assessment Program

General Accounting Office Report No. AIMD-96-84 (OSD Case No. 1150), "Information Security: Computer Attacks at Department of Defense Pose Increasing Risk," May 1996, states that based on information obtained from DISA, DoD may have experienced as many as 250,000 computer attacks in prior years. Of that number, approximately 65 percent may have been successful. The number of attacks is likely to increase in the future, as Internet use increases along with the sophistication of hackers and their tools.

Currently, no DoD-wide policy requires vulnerability assessments or criteria for prioritizing the areas exposed to the highest risk of attack. However, DISA established a Vulnerability Analysis and Assessment Program in 1992 to identify vulnerabilities in DoD information systems. A DISA team is authorized to test any system supported by the DISA network without first notifying personnel at the site. Testing of systems external to DISA is performed on request only.

During this audit, we reviewed the use of the Vulnerability Analysis and Assessment Program at the DISA Defense Megacenters that process transactions for DRAS. (DRAS consists of two subsystems, the Retiree and Casualty Pay Subsystem and the Annuitant Pay Subsystem.) DISA processed the transactions for DRAS at its Defense Megacenters in Chambersburg, Pennsylvania, and Denver, Colorado. Transactions for the Annuitant Pay Subsystem were processed on a mainframe computer at the Defense Megacenter in Denver.

Although DISA has tested 6 of the 16 Defense Megacenters for vulnerabilities, testing has not begun at the Defense Megacenter in Denver. If individuals with wrongful intentions are able to exploit weaknesses at the Megacenter in Denver, the Annuitant Pay Subsystem could be disrupted, affecting payments to over 257,000 annuitants. Also, because the Annuitant Pay Subsystem disbursed a monthly average of \$141.4 million from the DoD Military Retirement Trust Fund in FY 1998, the financial statements of the DoD Military Retirement Trust Fund could be materially affected.

DISA managers stated that they plan to complete the Vulnerability Analysis and Assessment Program for all Defense Megacenters by May 2000. DISA must follow through with this plan to prevent any potential security problems and to protect the integrity of DRAS.

Appendix D. Major Categories of Application Controls

We evaluated four major categories of application controls. Those categories included controls over the authorization, completeness, accuracy, and integrity of processing and data files.

Authorization Controls. These controls are closely associated with management's declaration on financial statements (commonly called management's assertions) concerning the validity of transactions and the actual occurrence of transactions in a given period.

Completeness Controls. These controls relate directly to management's assertion on the completeness of transactions, that is, whether all valid transactions are recorded and properly classified.

Accuracy Controls. Accuracy controls relate directly to management's assertion that transactions are recorded at the correct amounts. These controls are not limited to financial information, but also address the accuracy of other data.

Controls Over Integrity of Processing and Data Files. Integrity controls, if deficient, could nullify each of the above types of controls, allow the occurrence of unauthorized transactions, and cause data to be incomplete and inaccurate.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Superintendent, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Denver Center
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Defense Systems Management College

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations,
Committee on Government Reform

Non-Government Organizations

Deloitte and Touche LLP

Defense Finance and Accounting Service Comments



DFAS-HQ/FMM

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

FEB 25 1999

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: DoDIG Draft Report, "Application Control Over the
Annuitant Pay Subsystem at the Defense Finance
and Accounting Service Denver Center" dated
November 23, 1998, (Project No. 89FG-5010.01)

We have reviewed the subject draft report and provide the
following comments:

Page 8, fourth bullet, revise to read, "reviewed written
procedures for annuity pay operations."

Inspector General Recommendation 1: The Director, DFAS
Denver Center enforce procedures for making timely reviews on
all reports containing rejections and potentially erroneous
transactions generated from the Defense Retiree and Casualty
Pay Subsystem.

Response: Concur. The Director, DFAS Denver Center has
taken action to get all reports reviewed in a timely manner.
A Management Information System chart has been created which
lists all monthly reviews and the date each review was
completed. The recommendation was implemented on January 30,
1999.

Inspector General Recommendation 2: Include supervisors
in the quality examination program and require supervisors to
document reviews of reports containing rejections and
potentially erroneous transactions.

Response: Concur. The supervisors have always been
included in the quality examination program. The supervisors
will document and review all reports. The recommendation was
implemented on January 30, 1999.

2

If you have further questions, please contact my project officer, Mr. Fiti Malufau, at 703-507-5061.

Edward T. Hynan
for Gregory P. Blitz
Director for Finance

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

F. Jay Lane
Kimberley A. Caprio
Dennis L. Conway
Shirley Willard
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Application Controls Over the Annuitant Pay Subsystem
at the Defense Finance and Accounting Service Denver Center

B. DATE Report Downloaded From the Internet: 08/26/99

**C. Report's Point of Contact: (Name, Organization, Address, Office
Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 08/26/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.